Corporate Governance as an instrument of change state owned companies: The case of the Hellenic Telecommunications Organization

Loukas J. Spanos[a*] and Demetrios B. Papoulias [b]

[a] *Center of Financial Studies, Department of Economics, University of Athens, 5 Stadiou street, 2nd floor, 105 62, Athens, Greece*

[b] *Department of Economics, University of Athens, 8 Pesmazoglou street, 105 59, Athens, Greece*

May 2005

[*] Corresponding author: Tel. 0030-210-3689390, Fax. 0030-210-3225542

Email addresses: ljspanos@econ.uoa.gr (L.J. Spanos), dpapoul@econ.uoa.gr (D.B. Papoulias)

Abstract

This paper analyses the evolution of Corporate Governance (CG) mechanisms and organizational changes of the Hellenic Telecommunication Organization (HTO) and has two objectives: to enrich the debate and to contribute to the increasing body of literature by examining and analyzing the organizational and institutional changes taken place in the HTO; and to place the HTO's case within the international debate regarding the privatization of state-owned companies and the importance of CG mechanisms as instruments of change. It is argued that the privatization of state-owned companies, when is accompanied with appropriate reform measures, can produce multiple positive effects. CG reforms were the main instruments that used in order to prepare the telecommunications incumbent to face the open and competitive markets.

Keywords: *Corporate Governance, Hellenic Telecommunications Organization (HTO), state-owned companies, privatization, change*

1. Introduction

Liberalization of the markets and large-scale privatization programs are the main policies implemented worldwide over the last twenty years (Kole and Lehn, 1997). Great challenges emerged then for state-owned companies that face the competitive markets: how to adopt contemporary structures and practices in order to compete effectively in the open-markets regime? State-owned companies constitute a diverse type of organization and economic form, and constitute a considerable player in the economic scene worldwide. Indeed, according to the OECD (2004a), they represent up to 20% of GDP, approximately 10% of the employment, and around 40% of market capitalization in OECD countries. At the same time, debates on Corporate Governance (CG) of state-owned companies that are partially privatized are equally as important as those of private companies. However, the governance processes and management policies of state-owned companies have to take into account a number of political constraints. The intervention of government, through formal or "behind the scenes" processes, to impose on the management political objectives has a significant impact on the way the state-owned companies organize their business. Politicians have always a motive to pursue political goals, such as over-employment in state-owned corporations, even in fully competitive environments, causing significant inefficiencies (Shleifer and Vishny, 1986). It is worth noting that the OECD, recognizing that improving the governance is an important public policy objective, developed recently a set of voluntary guidelines on CG of state-owned companies (OECD, 2004a).

The state plays a significant role in major Greek listed and non-listed companies. The objective of this paper is twofold. First, to enrich the debate in this area and to contribute to the increasing body of literature by examining and analyzing the organizational and institutional changes taken place in the HTO, the state-controlled dominant telecommunication organization in Greece, which now is partially privatized. Second, to place the HTO's case within the international debate regarding the privatization of state-owned companies and the importance of CG mechanisms in place. It is claimed that CG reforms were the main instruments to gradually transform the company from a government-run monopoly to a competitive company pursuing shareholder value-oriented objectives. From 1996, the Greek state reduced its participation in HTO's share capital and an effort to establish an entrepreneurial and "shareholding" culture at the HTO began. At the same time, a series of actions for opening telecommunications market to competition and strengthening capital market initiated by the Greek government, under the EU pressure. Given the size and the importance of the company, its restructuring was not an internal organizational issue only, but involved key outside actors, most important of which was the government. From a management-of-change point of view, the transformation process of a state-controlled organization, like the HTO, should be seen within its broader institutional context, focusing on a number of interdependences among the different stakeholders (e.g., Johnson et al., 2000; Tsoukas and Papoulias, 2005). The transformation process of the company involved a high degree of complexity, difficulties and conflicts. It is claimed that at the early stages of the company's change process the adopted mechanisms are still fragile and significant backward steps may be occurred.

The paper is structured as follows. Part one is an introduction. Part two provides some background about the CG framework in Greece and describes the evolution of CG of state-owned companies. The European experience of telecommunications' privatization and reform is presented in part three. The HTO case is presented in part four, where the evolution of CG mechanisms and organizational structures are analyzed, together with some critical points related to HTO's transformation process. Part five concludes by summarizing the main points of the paper and discussing interesting issues with potential implications for the partially privatized state-controlled companies.

2. The evolution of CG of state-owned companies in Greece

2.1 Recent developments

Traditionally Greek companies were, and most of them still remain, family owned. However, the significant use of IPOs as means for raising capital in the late 1990's turned these companies from private-family owned to public listed companies, offered the first sign that the long lasting operating methods had to be reconsidered. The discussion on CG in Greece is focused mainly toward protecting individual and minority shareholders' interests that are practically cut off from the decision making process of the firm (Xanthakis et al., 2003; Spanos et al., 2004; Tsipouri and Xanthakis, 2004; Spanos, 2005). The speculative events in the Greek capital market during 1999 led the Hellenic Capital Market Commission (HCMC) and the state to take an active role, introducing rules, regulations and codes of conduct.

The legislative framework of the Greek capital market is now fully harmonised with the guidelines and directives of the EU. The disclosure framework is quite strong and in line with the EU trends. The ownership dispersion is considered as middle to low[1], consistent with most other continental European countries[2]. A first major step toward the formation of a comprehensive framework on CG has been the publication of a voluntary code of conduct, which was closely modelled according to OECD Principles on CG (OECD, 1999). In 2002 the government amended the corporate law and incorporated fundamental CG obligations. Although improvements in CG have occurred in Greece, they are mainly confined to a small number of large listed companies that are more in tune with the international corporate stage.

2.2 CG of state-owned companies

In Greece the state owns or controls companies of all sizes, in various sectors, like banking, telecommunications, energy, transport, tourism, defense, lottery and culture. The dominant role of the state in many companies is not a domestic phenomenon. The state usually plays an important role as the controlling shareholder in continental Europe. In the EU, the state remains the largest direct or indirect shareholder in 45 out of 143 large capitalization privatised companies (OECD, 2004c). Given the number and size of companies under state control

---

[1] According to the HCMC (2001), in 370 listed companies in Greece, average ownership dispersion was 47.22% when the major shareholder is defined as the shareholder owing at least 5%. In total, according to the study, the 370 listed companies were held by 974 major shareholders, while the major shareholders per listed company were around 3.

[2] A recent study by Faccio and Lang (2001), in a sample of 3,740 in five Western European countries (France, Spain, Italy, UK and Germany) documented a small degree of ownership dispersion.

around the world, an important issue is how to improve CG, and consequently performance, at companies where the government is the ultimate controlling blockholder[3].

In Greece, the holdings of the state and the state-related entities are substantial and may allow it to have significant influence on decisions submitted to vote of the companies' shareholders. Before 1996, the state, as the dominant shareholder, had the power to influent directly the budgetary and investment plans, the personnel recruitment and the appointment of the board (Rapanos, 2000). The intervention of government often imposed on companies' executives (mainly political appointees) political objective such as the excess creation of jobs[4], which created political benefits, but created economic inefficiencies[5]. In particular, in 1983 the Socialistic Government passed the law on "Socialization of State-run Undertakings and Utilities"[6]. In 1996 the government passed a new legislation, enabling state-owned companies

[3] A considerably body of literature has studied whether state ownership is value-destroying or is better than private ownership. Boardman and Vining (1989) documented evidence that, in both developed and developing countries, state-owned companies (or mixed state and privately-owned companies) were significantly less profitable that private-owned companies. Dewenter and Malatesta (2001) empirically document that private-sector companies have significantly (and consistently) out-performed state-owned companies for the past 25 years.

[4] Up to the early 1990's state-owned companies were expanded to create employment around election time.

[5] The literature has emphasized inefficiencies associated to state governance via intervention on state-owned companies (e.g., Kornai, 1980; Shleifer and Vishny, 1994; Dewatripont and Maskin, 1995).

[6] The main feature of the law was the employees' participation in the management and monitoring of state-owned companies, with the objective "to serve the national interest and society".

to operate like private companies. The new law[7] specified the duties and the responsibilities of the companies' administrative organs and the main focus was on improving management.

The state-owned companies are also required to draw up and submit to the relevant ministers a strategic plan and a three- to five-year business plan. They are entitled to monitor the implementation process, while external auditors are hired to ensure financial transparency. Although the above changes were useful, there was still much inefficiency. For example, in the newly deregulated sectors, like telecommunications, the state often plays a dual role of regulator and owner *vis-à-vis* state-owned companies, which often creates distortion of competition[8]. In addition, state participation in state-owned companies' boards is still excessive and lacks appropriate competence levels[9].

It is worth mentioning, however, that the new law was only an element of a reform-agenda to change the broader institutional-cultural environment. In particular, the law was a part of a broader domestic agenda on "modernization" proclaimed by the government of Costas Simitis after 1996. The Maastricht Treaty fiscal criteria for joining the European Monetary Union and the eurozone put strong pressure on the government to achieve macroeconomic stability and nominal

[7] Law on "Modernization of State-run Undertakings and Organizations and other provisions".

[8] The OECD (2004a) guidelines on CG of state-owned enterprises state that the clear separation of regulation and ownership is regarded as good practice.

[9] As the OECD (2004a) guidelines mention, the state representatives might be viewed as directors who represent the Minister's point of view and this could be disruptive to the rest of the board. The board might consider that the state monitors directly the company.

convergence. Furthermore, a structural reform programme included the privatization of state-owned companies, opening markets to competition, improving capital market transparency, and restructuring and simplifying administrative procedures. Privatizations were mainly driven by the need of the Greek government to attract investment capital, improve corporate efficiency, establish an entrepreneurial culture in state-owned companies, promote a "shareholding" culture among citizens, reduce public deficits and liberalize monopolistic markets, such as banking, telecommunications and energy[10]. The method of privatization used by the government was the public offering of shares in the stock exchange, adopting a gradualist strategy.

3. Privatization and reform in European telecoms

Telecommunications services in European countries have been provided by large state-owned monopolies, within the Ministry of Telecommunications or other government-related agency. The liberalization of the telecommunications sector in EU countries started in 1987[11] and the telecommunications markets opened to competition following the EU requirements. However, the processes of privatization and liberalization evolved at different speeds among EU countries (Goldstein, 2000). Nestor (2005) concludes that CG regime is an

[10] Tsoukas and Papoulias (2005), refer to the third-order change as a process that typically involves a broader political project to modernize a country's institutions. The main challenge in a third-order change process is to turn the state-political firm into a conventional firm that learns to compete in the marketplace.

[11] In 1987 the European Commission published the *Green Paper on the Development of the Common Market for Telecommunications Services and Equipment* (European Commission, 1987).

important instrument to facilitate the transition of the partly or wholly privatized European telecoms. The literature shows that telecom privatization is associated with significant operating and financial improvements (e.g., Galal et al., 1992; Parker, 1994; Megginson and Netter, 2001; Bortolotti et al., 2001).

In Germany, the first important step in regulatory reform in the telecommunications sector was taken in 1989, quite earlier than in other continental-European countries. The state-owned telephone company Deutsche Telekom AG (DT) has been partially privatized[12] and the government owns around 42.3% today. The government is still the dominant shareholder and has the power to elect all the shareholders representatives of the supervisory board and controls the disposition of all other routine matters that come before the shareholders meeting (Gordon, 1998; 2003). The government however has expressed its long-term intention to fully privatize the company (OECD, 2004b). France opened up its telecommunications market to full competition in 1998 following the EU requirements. The process of liberalization of the telecommunications sector was met by strong labor union opposition[13], and the first attempt for partial privatization of the France Telecom (FT) in 1995 failed due to strong resistance by the trade unions (Goldstein, 2000). In 1997, the company issued shares on the Paris and New York stock exchange. The state is the dominant

[12] The DT's IPO was the first time a German company made an IPO.

[13] This is also linked with the lack of strong political support for the creation of a competitive telecommunication market. In general, French governments in the early 1990's were not strong supporters of the process of liberalization of the telecommunication market and tended to be followers in implementing EU-driven regulatory reforms (OECD, 2003).

shareholder and now holds 54.5% of the company[14]. According to the OECD (2003), the insufficient separation between the government as the core shareholder of FT and its role as regulator remains probably the main weakness of the French telecommunications sector. The Spanish telecommunications market is another example where regulatory reform was driven in order to meet the EU requirements. The privatization of Telefonica was completed in 1997 when the 21% stake of the state was sold. However, political mechanisms of control, in particular the golden share, were still in place after privatization. In addition, it is argued that the government created an agency problem inside the firm[15] (Jones et al., 1999; Bel and Trillas, 2005).

4. The transformation agenda at the HTO: Privatization, CG reforms and the role of the state

4.1 Background

The HTO was established in 1949 after a merger between the Greek Telephone Company S.A. (GTC[16]) and Cable & Wireless and had exclusive rights over the operation of telecommunications services in Greece. The purpose of the company was the establishment, development, operation and provision of telecommunications

[14] A new law has been adopted by the French parliament, which allows government's shareholding to fall below 50%. However, it also allows employees of FT who are civil servants to retain statutory guarantees if FT loses its public service mission (OECD, 2003).

[15] Since the government kept the golden share, takeover threats were impossible. In addition, there were no strong shareholders to constraint the managers (Bel and Trillas, 2005).

[16] GTC was founded in 1930 by Siemens-Halske as its main shareholder. In 1946, as a compensation for war reparations, a percentage of 75% of GTC's foreign shares were handed over to the Greek State.

infrastructure and services. It had also the obligation to secure confidentiality of telecommunications for all customers, including public services and armed forces. Effective as of January 1, 2001, the period of exclusivity in the provision of fixed line voice telephony services expired and the market was open to competition. According to the legislation, the HTO's investment programs should conform to the annual and five-year government investment programs; the Ministry of National Economy and the Ministry of Transport and Communications are responsible to approve or to reject any international agreement, contact and tariff; the state should not interfere in HTO's management.

In 1980's, under the new government of the Socialistic Party[17] (PASOK), HTO and its subsidiaries became part of the public sector[18]. HTO was considered as a "socialized" public utility enterprise, allowing employee representatives to participate in HTO's board of directors[19]. In 1990 the role of the state was strengthened, by increasing from six to eight the number of government representatives on the board of HTO and a series of public corporations. An attempt of the Conservative Party (New Democracy[20]), to privatize it in 1992 was

---

[17] In office since 1981.

[18] It is worth noting that the first action in favour of state interventionism was taken during the 1974-1981 period by the Conservative Government (New Democracy), which nationalized major companies, like Olympic Airways and the Commercial Bank of Greece.

[19] The "Socialization Act" , which introduced by the Socialistic Government of Andreas Papandreou in the early 1980's, changed the governance of state-owned companies, by establishing the so-called goal of serving "the national interest and the social whole". Representatives of the government, employees and several social groups were entitled to participate in the management of state-owned companies in order to serve the goals of the "socialized" public utilities enterprises (Papoulias and Lioukas, 1995).

[20] New Democracy succeeded the Socialistic Party in government in the early 1990's.

failed due to political disagreements and the strong opposition of HTO trade unions[21]. It is pointed that after 1992 employees' representatives used elected positions in administrative organs of HTO to satisfy personal ambitions, while the state power used to serve political interests (Tsiara, 1998). The new government of the Socialistic Party in 1993[22] followed a gradualist approach of privatization. The first attempt of partial privatization in 1994 was, however, unsuccessful. HTO's initial public offering (IPO) took place in 1996 in the Athens Stock Exchange and the state's share ownership was reduced to 92%[23]. Presently, the state holds 33.7% of the HTO[24]. However, the state still controls the company through other state-related shareholders[25]. According to the law, under no circumstances may the state hold less than 33.3% of the company's shares. The company ranks among the largest telecommunication organizations in Europe and is the leading telecommunications operator in the South-eastern European region. The company's results were increased sharply during the first two years after its IPO. Turnover and pre-tax profits increased by 51.4% and 15.0% respectively in 2000 compared with 1997 (table 1).

---

[21] HTO trade union (OME-OTE) is strong and influential within HTO and has consistently opposed the Greek State reducing its shareholding in HTO.

[22] The Conservative Government lost its marginal majority of one vote when an MP decided to withdraw his support. The affiliated press related the event with an earlier Government decision to halt procurement negotiations with local suppliers so that the strategic investor could take the decision. The country was led to premature elections and the Socialists returned to power.

[23] In 1996 Costas Simitis, the leader of the reformist and European movement within PASOK, was appointed to succeed Prime Minster Andreas Papandreou, who resigned due to ill health.

[24] As of December 31, 2003.

[25] The state-related Hellenic Exchangeable Finance holds 10.6%, while Hellenic Finance and DEKA SA (the privatization company of the Greek State) hold 2.8% and 0.017% respectively.

However, pre-tax profits have been on a steadily deteriorating trend for the past three years, reflecting the drop in Greek fixed-line revenues, due in part to the regulator-imposed cuts in leased-line tariffs, as well as to lower pricing. The shares are also listed for trading on the Frankfurt Stock Exchange and the Berlin Stock Exchange. American Depository Shares (ADS's) are listed on the NYSE and are also admitted to the official list of the London Stock Exchange and quoted on SEAQ International and on the Munich Stock Exchange. HTO is also included in various indexes such as FTSE/ASE-20 and FTSE Eurotop-300.

--take in table 1--

4.2 Regulation and policy

The telecommunications industry in Greece is dominated by HTO. Until the late 1980's the telecommunications sector, like in more European countries, has been a monopoly. The HTO had the exclusive rights to operate the telecommunication services in the country. Between April 1996 and June 2002, six sales of the HTO stock were conducted, reducing state's stake to 33.7%. The Greek telecommunications market was fully liberalized and HTO's explicit right for the provision of voice telephony was removed. Starting in 1990 the EU issue a series of Directives, which lead to the abolition of existing monopolies, and permitted the competitive provision of all telecommunications services. The first slow step toward a more liberalized regime began in 1990 through the deregulation of value-added services and mobile telephony services. The partial opening of the telecommunications market was enacted in 1992 with a new legislation, under which only private operators could provide mobile telephony services, excluding HTO from the mobile telephone market.

As a result, a duopoly regime was introduced by granting two licenses to STET-Hellas S.A. (majority-owned by Telecom Italia Mobile) and Vodafone-Panafon S.A. (majority-owned by Vodafone). In 1994 the mobile telephony market was fully liberalized, allowing HTO to enter the market as well. In 1997, HTO's right to develop and provide a mobile service was transferred to its subsidiary COSMOTE.

A number of laws and Ministerial Decisions supplemented the regulatory framework, until the provision of voice telephony and the underlying public network infrastructure were fully deregulated, in line with the EU. It is worth noting that Greece in general lagged in implementing the EU requirements and failed in taking decisions to help the process of liberalization. The Greek state applied for an extension of the official EU's deadline for full liberalization in the provision of voice telephony and associated network infrastructure, reasoning that full digitalization and modernization of the public telephone network can only be achieved if HTO retains its exclusive rights in order to achieve sufficient revenues until then. However, the European Commission rejected most of the reasoning and decided to provide a conditional extension to the Greek state until the end of 2000.

In 2000, in the light of full liberalization of the telecommunications market, a Telecommunications Law was enacted. The main guidelines on the policy on telecommunications are drawn by the Minister of Transport and Communications. HTO is supervised by the National Telecommunications and Post Commission (EETT), which is an independent regulatory authority, enjoying administrative and financial independence. As a listed company, HTO is also regulated by the principles of CG in the Greek legislation framework, as well as the US Stock Exchange Committee[26] (SEC).

4.3 Path to privatization, organizational changes and CG reform

CG emerged as a fundamental instrument to the process of changing, restructuring and rationalization of the HTO. The CG mechanisms that companies must rely on are generally distinguished into two types: internal mechanisms, like ownership structure, the board of directors, and the management structure, and external mechanisms, like market competition, the legal and institutional framework and the supervision by the capital market. It is argued that both internal and external CG mechanisms are necessary to be addressed by the government, in order to make state-owned companies competitive. After 1996, HTO undertook a strategy of corporate change and CG restructuring (internal mechanisms), while the government introduced significant institutional and regulatory changes (external mechanisms). The external CG mechanisms affected and determined to some extent the internal process of restructuring of HTO. For example, investor protection reform and measures to enhance market's transparency were introduced by the regulatory authorities, while a new law was released requiring fundamental CG obligations. Fundamental institutional policies were also initiated in order to create more flexible and transparent product and labour markets, to lessen state intervention in the economy and to decrease public sector's administrative inefficiencies. However, changes in corporate behaviour are usually complicated and involve conflicts with forces that have different views and interests.

---

[26] Since HTO's shares trading on the NYSE from 1998.

HTO's partial privatization was associated with changes in major internal CG mechanisms, like ownership structure, the board of directors and CEO/Chair appointment. In 1996 a new Chairman, Professor Demetrios Papoulias with a strong background in restructuring state-owned companies (co-author of the present paper), was appointed and a new management team was created. So, the HTO's reform agenda began. The new objectives were to design the partial privatization of HTO, to explore opportunities for expansion, to create a "shareholding" culture within the company, and to introduce contemporary and internationally accepted CG and management practices. An extensive promotional campaign made in 1996 in order to encourage purchase of HTO shares. The demand was very high and the IPO was oversubscribed. In 1998 the company successfully completed its second public offering and started trading on the NYSE. The company tried to attract worldwide institutional funds and the international investor demand amounted to approximately 2.1 times the international offer size[27]. Gradually, under-qualified government-appointed directors and managers were replaced by qualified professionals[28]. An Audit Committee (AC) also established as a supervisory and consultative board-level body. The AC, which also complies with NYSE rules, currently consists of three non-executive directors, of whom two are independent, and meets at least four times each year. In 2001, the reduction of government's shareholding below

[27] The total offering size was 50.4 million ordinary shares representing 10% of HTO's outstanding share capital.

[28] In the literature, changes in the board of directors and the CEO of partial-privatized state-owned companies produce more effective monitoring and management (Lopez-de-Silanes, 1997; Shleifer and Vishny, 1997; Boubakri et al., 2001).

51% was accompanied by significant CG amendments at HTO. In particular, all members of the board of directors (including the CEO and the Chairman) should be appointed by the general assembly, not allowing any special interest group (like the trade unions and the Economic and Social Committee etc.) or shareholder (like the state) to nominate any director[29]. The company offers, constantly the last years, incentives for early retirement in order to reduce its workforce[30]. Recent discussions between the management and the trade unions attempt to change the statues of the newly recruited employees, not allowing them to have civil servant status.

In addition, in order to prepare for full competition, HTO designed a regional expansion strategy in the Southeastern Europe. The company made certain investments in telephony operators in Serbia, Armenia, Romania, Albania, Bulgaria and the Former Yugoslavian Republic of Macedonia (table 2). However, a number of Southeastern companies had experienced many problems, like high inflation, currency fluctuations, devaluations of the local currencies, and armed conflict and civil strife. All these conditions affected adversely HTO's international investments and businesses, resulting in a decline value. It is worth mentioning that the company has now change its strategy and believes that direct investments in other telecom operators are not necessary in order to support its regional expansion.

---

[29] Practically, HTO was fully aligned to the Greek Companies Law and didn't have anymore the obligation to follow the provisions of the 1996 law, exclusively designed for state-owned companies.

[30] The company's number of employees has been gradually dropped for the past five years, at an average rate of 5.6% (HTO, Annual Report, 2003).

--take in table 2--

The partial privatization of HTO was among the largest in the Greek market accounting for a large share of the capitalization of the stock market. It is recognized that the significant growth and deepening of the Greek capital market have its roots, to some extent, in the large public offerings made by HTO. In addition, HTO's IPO and public offering involved large fraction of the Greek citizens becoming shareholders for first time. In the IPO in 1996 a great number of Greek citizens purchased shares. Promoting shareholding culture among citizens was crucial, given the immaturity of the Greek capital market in 1996. The government had also immediate budgetary benefits from HTO privatization (the total public revenues for the period 1996-2004 were estimated by HTO at €9.2 billion). The company's partial privatization program played a significant role in major reforms that the government introduced in order to better protect shareholders. The reform package was completed in response to a number of speculative events in the Greek capital market during 1999. Moreover, the financial educational impact of HTO's public offerings for the domestic financial institutions, which served as underwriters, was very important. The company's share issue privatization program, which involved the largest public offer ever made, was a unique opportunity for the Greek banking sector to test its capabilities, in order to face the intense IPOs and increases in share capital in 1998 and 1999.

4.4 CG problems and conflicts of interest: an ongoing process

Throughout history, HTO has been a large organization, with complex structure, opportunistic behaviours, special interest groups (inside and outside the company) and examples of favouritism and politicized decision-making processes. A strong and influential trade union consistently opposed the part-privatization of HTO. Given that a large-scale transformation program affects old-styled and rigid practices, the HTO's restructuring process involved many difficulties and backward steps. Even after significant CG reforms and organizational changes have been introduced, the company still faces major challenges. Indeed, it is argued that the company has not yet developed a clear culture, due to regular and often unreasonable organizational changes. More importantly, the high frequency rate of changes is related with conflicts of interest among politicians, the management and other interested parties.

The regular dismissals of HTO's chief directors and senior managers were evaluated negatively by the market, as an indication for state intervention and mismanagement. It is worth noting that during the period 1996-2004 the company's CEO and/or Chairman were replaced almost every two years. Every new CEO and management team was coming with a mandate to restructure and reorganize the company. It's characteristic that the new head of the HTO[31] states that the regular CEO changes "has created entirely justifiable scepticism and, to some extent, the reception of every new management by the personnel is inevitably opportunistic" (HTO, Annual Report, 2003, pp. 6-7). He also criticized the previous management structure as being extremely complex. Under its new leadership, the company reduced the number of directors from 15 to 11 and abolished the Executive Committee on CG. It is, however, extremely difficult for a large and complex organization, like HTO, to effectively acquire patterns of

[31] In March 2004 the Conservative Party won the national election and three months later a new board was elected by the general assembly.

management, thinking and acting that are subject to regular change. It is worth mentioning that the regular dismissals of HTO's CEO and Chairman were usually interpreted by the affiliated press as evidence for crisis in the company management and complicated conflicts of interest among politicians, suppliers and the management.

Although the company has introduced significant CG reforms, there is still room for improvement. Indeed, the company complies with what the legislation requires and doesn't move further on a voluntary basis. For example, the company has established an AC, but other board-level committees (e.g., remuneration, nomination and CG/ethics committee) have not yet been established. The company doesn't also disclose CG guidelines relating to compensation, directors qualifications etc. From 2001 the board Chairman and the CEO are the same person in the company. It is well known, however, the increased body of literature that proposes the separation of the two roles in order to achieve a balance of power. The OECD (2004a) suggests that such separation is a fundamental step in establishing strong boards in state-owned companies. Finally, board size in HTO seems to be quite large, while international experience indicates that smaller boards allow for better monitoring of management and less political interference[32]. Newly implemented CG mechanisms, however, require a significant amount of time to reach their potential effectiveness. In the early stages, these mechanisms are still fragile and we often observe cases where management bypass them.

[32] The OECD (2004a) CG guidelines for state-owned companies recommend that board should be limited in size in order to encourage responsibility and function effectively.

5. Summary and conclusions

This paper examines the evolution of CG and organizational changes of a large state-owned company (HTO), which now is partially privatized, with a significant role in the Greek economy. The significance of our analysis for policy makers is obvious: The privatization of the HTO, through the stock exchange, was the first large-scale privatization made by the government and used as a model for other state-owned companies. It is argued that the privatization of large state-owned companies, when is accompanied with appropriate reform measures inside and outside the company, can produce multiple positive effects. HTO transformation process had a great impact inside and outside the company. Internally, new management structures were introduced and the company became attractive internationally. In addition, the workforce acquired a culture of "belonging" in a company where shareholders' maximization value was the main objective. Externally, HTO public offerings established a "shareholding culture" among citizens, affected considerably the fiscal position of the government by increasing the public revenues, and contributed to the deepening of the Greek capital market and the enhancement of the domestic banks, which used as underwriters.

It is concluded that CG reforms were the main instruments that the government used in order to prepare the telecommunications incumbent to face the open and competitive markets. This process was combined with significant regulatory changes and the creation of a strong institutional framework. HTO has been moved gradually from a state-owned monopoly managed by political appointees, to a newly partially privatized company with significant CG mechanisms in place. This process involved, however, many backward steps, as a result of a complex nexus of conflicting relationships between the management, politicians and other parties (like the trade unions and the suppliers). Frequent CEO/Chairman changes, unreasonable organizational changes and the lack of continuity affected negatively the operation of the company. Discussing the processes of change at HTO we draw our attention to the fragility of the mechanisms in place. Hence, significant implications emerge both for policy makers and the leaders of the partially privatized state-owned companies. The former, should seek to appoint professional managers to run the companies and eliminate political-motivated interventions in the company's management. The latter, should develop a clear vision for the company and adopt contemporary CG mechanisms in line with the international standards. In this process, the company's leader should involve the board (including minority shareholders' representatives) and other stakeholders. The new CG and organizational mechanisms need time in order to be functional and well-established. The challenge for the company's leader is to be committed to effectively manage conflicts inside the company. The latter always increase the fragility of the new mechanisms. The lessons from the HTO case are very useful for many state-controlled companies that are partially privatized, or will be in the near future, through public offerings in Greece and in the new EU member-states, where transformation and privatization are great challenges.

--take in table 3--

Tables

Table 1

Highlights of Financial Results* (in € millions), 1997-2004

	Turnover	Pre-tax profits	EBITDA
1997	2,379.5	883.4	-
1998	2,757.2	837.1	-
1999	3,237.3	840.6	1,514.3
2000	3,602.2	1,016.0	1,600.6
2001	4,127.7	800.8	1,922.3
2002	4,326.9	742.1	1,890.4
2003	4,941.7	612.5	1,993.5
2004	5,206.7	183.7	1,914.1

Source: HTO, Annual Reports and Press Releases

*HTO and subsidiaries (in accordance with Greek GAAP)

Table 2

HTO's Investments in Southeastern Europe

Company name	Country	Amount US$ million	Equity participation	Type of business
Telecom Serbia	Serbia	287.0	20.0%	Public telephony operator
Armenian Telephone company	Armenia	142.5	90.0%	Public telephony operator
Romtelecom	Romania	675.0	54.0%	Public telephony operator
Albanian Mobile Communications	Albania	85.6	48.6%*	Mobile operator
CosmoBulgaria Mobile	Bulgaria	135.0	100.0%	Mobile operator
Cosmofon Mobile Telecommunications Services AD Skopje	FYROM	25.0	100.0%	Mobile operator

Source: HTO, SEC FORM 20-F, 2004

*Held through COSMOTE and its 97% owned subsidiary COSMO-HOLDING ALBANIA.

Table 3

Milestones in HTO's Privatization Process

Date	Event
Nov '92	First privatization attempt by the Conservative Government ("strategic investor initiative")
Sept '93	The privatization's negotiations stopped. The Socialists returned to the government
Nov '94	The Minister of National Economy failed to find interest from international investors for partial privatization
Apr '96	IPO and listing on the ASE. State's shareholding: 92.4%
Jun '97	2nd PO and trading on the LSE. State's shareholding: 81.3%
Jan '98	The state transferred to DEKA S.A.* 6.3%. State's shareholding: 75.1%
Nov '98	3rd PO and trading on the NYSE. State's shareholding: 65.1%
Jun '99	4th PO in the ASE & NYSE. State's shareholding: 51.1%
Apr '00	State's shares increased to 52.4%
Jul '00	DEKA S.A. issued a convertible bond raising funds of 14.97 million shares
Aug '01	The state transferred to DEKA S.A. 10.68%. State's shareholding: 41.7%
Jun '02	Book-building placement of 8% by the state. State's shareholding: 33.7%

* The privatization company of the Greek state

References

1. Bel, G. & Trillas, F. (2005). Privatization, corporate control and regulatory reform: the case of Telefonica. *Telecommunications Policy*, 25(1), 25-51.

2. Boardman, A. & Vining, A. (1989). Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed, and State Owned Enterprises. *Journal of Law and Economics*, 32, 1-33.

3. Bortolotti, B., D' Souza, J., Fantini, M. & Megginson, W. L. (2001). Source of performance improvement in privatized firms: A clinical study of the global telecommunications industry. Working Paper, FEEM: Milan.

4. Boubakri, N., Cosset, J-C & Guedhami, O. (2001). Liberalization, Corporate Governance, and the Performance of Newly Privatized Firms. Working Paper No. 419, Universite Laval.

5. Dewatripont, M. & Maskin, E. (1995). Credit and efficiency in centralized and decentralized economies. *Review of Economic Studies*, 62, 541–555.

6. Dewenter, K. & Malatesta, P. H. (2001). State-Owned and Privately Owned Firms: An Empirical Analysis of Profitability, Leverage, and Labour Intensity. *American Economic Review*, 91, 320-334.

7. European Commission (1987). *Green Paper on the Development of the Common Market for Telecommunications Services and Equipment*. COM (87), 290, Brussels.

8. Faccio, M. & Lang, H. (2001). The ultimate ownership of western European corporations. *Journal of Financial Economics*, 65, 365-395.

9. Galal, A., Jones, L., Tandon, P. & Vogelsang, I. (1992). *Welfare Consequences of Selling Public Enterprises*. Washington, D.C.: The World Bank.

10. Goldstein, A. E. (2000). Corporate Governance and Regulation in Privatized Utilities: Telecommunications in Four European Countries. *Business and Politics*, 2(2), 189-223.

11. Gordon, J. (2003). An International Relations Perspective on the Convergence of Corporate Governance: German Shareholder Capitalism and the European Union, 1990-2000. Discussion Paper No. 406, Harvard Law School.

12. Gordon, J. (1998). Deutsche Telekom, German Corporate Governance, and the Transition Costs of Capitalism. Working Paper No. 140, Columbia University School of Law.

13. Hellenic Capital Market Commission (2001). Ownership Dispersion in the ASE listed companies. *Monthly Bulletin*, September.

14.HTO Annual Reports & SEC Form 20-F, 1999-2000-2001-2002-2003

15.Johnson, G., Smith, S. & Codling B. (2000). Microprocesses of institutional change in the context of privatization. *Academy of Management Review*, 25, 572-580.

16.Jones, S. L., Megginson, W. L., Nash, R. C. & Netter, J. M. (1999). Share issue privatizations as financial means to political and economic ends. *Journal of Financial Economics*, 53, 217-253.

17.Kole, S. & Lehn, K. (1997). Deregulation, the evolution of corporate governance, and survival. *American Economic Review*, 87(2), 421–425.

18.Kornai, J. (1980). *Economics of Shortage*. New York: North-Holland Publishing Company.

19.López-de-Silanes, F. (1997). Determinants of privatization Prices. *Quarterly Journal of Economics*, 112(4), 965-1025.

20.Megginson, W. L. & Netter J. (2001). From state to market: A survey of empirical studies on privatization. *Journal of Economic Literature*, 39(2), 321-389

21.Nestor, S. (2005). Falling between the tracks: privatization and corporate governance in the European telecom industry. *Corporate Governance: An International Review*, 13(2), 137–155.

22.OECD (2004a). Guidelines on Corporate Governance of State-Owned Enterprise. Draft, December.

23.OECD (2004b). *Regulatory reforms in telecommunications: Germany*. Paris: OECD.

24.OECD (2004c). *Corporate Governance: A Survey of OECD Countries*. Paris: OECD.

25.OECD (2003). *Regulatory reforms in the telecommunications sector: France*. Paris: OECD.

26.OECD (1999). *OECD Principles of Corporate Governance*. May.

27.Parker, D. (1994). A decade of privatisation: The effect of ownership change and competition on British Telecom. *British Review of Economic*, 16, 87-113.

28.Papoulias, D. & Lioukas, S. (1995). Participation in the management of public enterprises: Experience from Geek utilities. *Annals of Public and Cooperative Economics*, 66, 275-298.

29.Rapanos, V. (2000). Corporate governance of state-controlled companies in Greece: The case of the Hellenic Telecommunications Organization. Paper presented at the OECD Conference on: Corporate Governance of State-Owned Enterprises in China, Beijing, China, January 18-19.

30.Shleifer, A. & Vishny, R. W. (1994). Politicians and firms", *Quarterly Journal of Economics*, 109, 995-1025.

31.Shleifer, A & Vishny, R. W. (1997). A Survey of Corporate Governance. *Journal of Finance*, 52, 737-777.

32.Spanos, L. (2005). Corporate Governance in Greece: Developments and Policy Implications. *Corporate Governance: The International Journal of Business in Society*. 5(1), 15-30.

33.Spanos, L., Xanthakis, M. & Tsipouri, L. (2005). Corporate governance rating and family firms: the Greek experience. *Managerial Finance* (forthcoming).

34.Tsiaras, V. (1998). The participation of workers in DEKO: the case of OTE. University of Panteion, Spring 1998.

35.Tsipouri, L. & Xanthakis, M. (2004). Can Corporate Governance be Rated? Ideas based on the Greek experience. *Corporate Governance: An International Review*, 12, 16-28.

36.Tsoukas, H. & Papoulias, D. B. (2005). Managing Third-order Change: The Case of the Public Power Corporation in Greece. *Long Range Planning*, 38, 79-95.

37.Xanthakis, M., Tsipouri, L. & Spanos, L. (2003). *Corporate Governance: Concepts and Ratings*. Papazisis Publishing House, Athens (in Greek).

Biographies

Loukas J. Spanos is researcher at the Center of Financial Studies, University of Athens, Greece. He is Fellow of the Sasakawa Leadership Fund of the Tokyo Foundation and member of the European Corporate Governance Institute (ECGI).

Demetrios B. Papoulias is Professor of Strategic Management at the University of Athens, Greece and a former Chairman of the Board of the Hellenic Telecommunications Organization (1996-1998) and Chairman of the Board of the Public Power Corporation (2000-2004), Greece.